



Is your business costing you?



find extra profit

A guide to reducing non-core operating costs  
in the economic downturn

Issue 2: Banking and Finance



Expense Reduction  
Analysts



# Introduction

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Banking is never far from the front pages of the media at the moment and we are constantly being buffeted with new phenomena and phrases, from 'credit crunch' to 'short selling' and 'quantitative easing'.

**But whilst we have to leave world leaders to try and guide us through the peaks and troughs of the global storm, there is much that individual businesses can do to give their financial systems and banking arrangements a health check and ensure they are in the best possible position to weather the downturn.**

This guide aims to provide a range of practical advice and examples from experts in the field to help ensure your business is managing its finances effectively and efficiently.

It includes tips and advice on the following areas:

- Plastic card transactions – the major story of the modern financial world, but is your business set up to manage them to best effect?
- Day-to-day service charges – are you getting the best deal for the service your bank delivers?
- Finance processes – don't let the way you organise your business literally cost you money



# Plastic card transactions

The growth of plastic card transactions is huge in our modern “connected” world and the resulting overhead is now significant for many businesses. Paul Davidson has facilitated large savings for many household name clients and here he highlights some simple steps which may help your business save costs.

## 1 Security, security, security

There is a clear move in the industry towards dual pricing whereby the retailer is effectively charged a penalty for all transactions that fail to meet core security requirements. These penalties are typically as much as 0.5 per cent of the value of credit and commercial card transactions, and 10p for each debit card transaction – and every penny is avoidable.

The day is not far off when transactions that do not follow available security processes will simply be declined, so try to ensure the following:

- Protect face-to-face transactions with chip and pin
- Capture and use the required security information for all ‘card not present’ transactions (mail order, telephony or web)
- Utilise Mastercard Secure Code or Verified by Visa protocols for web transactions

## 2 Check your statements

In recent months there has been evidence of some merchant acquirers increasing their fees through means that are easy to challenge if identified, including:

- Not refunding the percentage levied on credit card transactions when a sale is reversed
- Charging commercial debit cards as a percentage of sales value rather than a flat transaction rate

Check statements regularly to make sure you’re not falling victim to this.

## 3 Take advantage of Exchange Rates

If you regularly serve holders of foreign cards, talk to your merchant acquirer about Dynamic Currency Conversion. It can halve the effective cost to your business of credit card transactions. If the provider cannot access this function for you, consider switching to one who can.



## Service charges

Historically, so many discussions between banks and their clients are related to the need for credit and the subsequent interest rates, meaning day-to-day activity-related costs are then ignored or treated as an after-thought. Companies need to be questioning whether there are better ways of undertaking some activities, says Steve Whitlam.

### 1 Identify the large cost areas...

Under the banking industry's code of practice, all monthly or quarterly service charges should be pre-advised before posting to accounts. Itemised calculations are generally sent out with bank statements so examine these to identify the high-volume, high-cost items.

### 2 ...but don't forget other charges

Some items are charged as they are used. Typical examples include commissions for foreign payments, Letter of Credit issues or even indemnities.

### 3 Compare unit prices with other businesses

Whether this is through talking to your network contacts or by obtaining tariffs published by your own or other banks, the aim here is to benchmark your costs against what others enjoy. The former can be a better guide since published

tariffs are a negotiation start point as larger businesses are more commonly charged on a discretionary, bespoke basis.

### 4 Negotiate with your bank

Pre-warn your relationship manager that you want to discuss specific costs, based on your analysis, but also make clear that you would like the bank's advice on relevant services that may change the way you carry out some transactions.

A simple example of reducing costs may be migrating payments away from cheques and towards electronic alternatives like BACS. At a more complex level it may be the introduction of cost effective online Treasury Management tools that bring efficiencies in multi-currency, multi-national environments



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A client in Middlesex was happy for us to tender their banking where costs totalled £282k a year. Working on some modest process changes, with a bank that we knew had a competitive advantage matching their specific needs, Expense Reduction Analysts implemented a change that saves them £223k pa.

### 5 Shop around

This doesn't necessarily mean tendering your full banking service out to the other High Street providers, but simply considering whether certain aspects - such as cash processing, foreign payments outward and certain types of indemnities - could be handled by others.

### 6 Keep out of the "Good Customer" blind spot

A bank manager's first priority is to control risk and this means that the clients who do not borrow, or who never breach their facilities/covenants, often remain tucked away on the back burner where their service or pricing levels are not regularly reviewed. The majority of bank managers will respond favourably to having pricing issues raised, rather than lose business by default.

### What about borrowing costs?

Business has been used to many years of increasingly generous facilities at increasingly fine margins. Now, though, it is not uncommon to hear of excellent businesses, with long track records, being

asked to concede as much as 0.75% back to the bank.

Whilst recognising that capital is tight for the banks and not wanting to negotiate away borrowing lines, declining the full increase requested should nonetheless be a given for companies and there are three key pieces of advice to consider when negotiating:

- i If the reason given is "current" base rates, then obtain in writing a commitment to the level of base rate that will see, all other things being equal, a return to lower margins.
- ii Seek a reduction in, or even waiver of, any arrangement fee. If the reason for the discussion is primarily the increased margin the bank wants – rather than renewal – what justifies such a fee?
- iii Use the opportunity to tackle service charges having prepared yourself based on the points above. Bank managers who are prepared to lose a "good" client for pricing reasons are few and far between.



# Finance processes

Expense Reduction Analysts has helped many clients reduce bank charges simply through changing the way some business processes are carried out. Stephen Whitlam shares some common ones here.

## 1 Factor in some savings

Invoice Finance is an established source of finance, particularly for manufacturers. However the impact of service charges can often be forgotten and – for an established facility – can have grown out of all proportion to the workload they ostensibly cover. It is still a competitive market and it's not unusual to undertake negotiations that result in savings in excess of 40%.

## 2 Get smart!

Many businesses spend a lot of time settling small invoices relating to the purchase of petty cash items and/or expenses claims when they would benefit tangibly from providing key staff with business cards. It's not widely known that, if correctly set up, business card statements can take the form of a single VAT invoice, combining the many individual documents that employees might otherwise submit. Such cards typically attract an annual fee of £15-£25 each and are easily arranged through clients' own banks.

Introducing company credit cards for staff brings a number of tangible benefits, including a reduction in the number of cheques issued, cash flow benefit of up to 45 days and a clearer means of monitoring expenses.

## 3 Become active not passive

If you receive many payments by Standing Order, not only is reconciliation a difficult task as your staff have to cross reference each receipt to establish any exceptions, but you will also be charged for each credit received by your bank.

Direct Debits on the other hand see exceptions automatically notified as part of the process. Not only that, the bank charge per direct debit is normally a fraction of the charge for each credit received as a result of a standing order. Many thousands of direct debits can be run per file submitted and expect volume discounts as your business grows.



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One client with £650m turnover in three currencies had a member of staff who spent half a day every day working out liquidity. This was done in order to draw down to/from money market deposits to maximise interest earnings. Expensive mistakes were often made. Expense Reduction Analysts arranged an automated daily sweep for the sterling balances, and for interest to be earned on currency balances, that not only freed up that half a person, but ensured a measurable cost benefit on the banking side as well.

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Expense Reduction Analysts is the world's largest cost management consultancy and focuses on reducing non-core operating costs for private, not-for-profit and public sector organisations.

Handling an annual supplier spend of millions of pounds on behalf of clients in all sectors, the consultants at Expense Reduction Analysts use their significant purchasing influence to achieve optimum value from suppliers, often successfully retaining incumbents and using expert analysis and market intelligence to combat 'contract fatigue'.

Expense Reduction Analysts has 150 consultants across the UK, specialising in more than 100 non-core business expenditure categories.

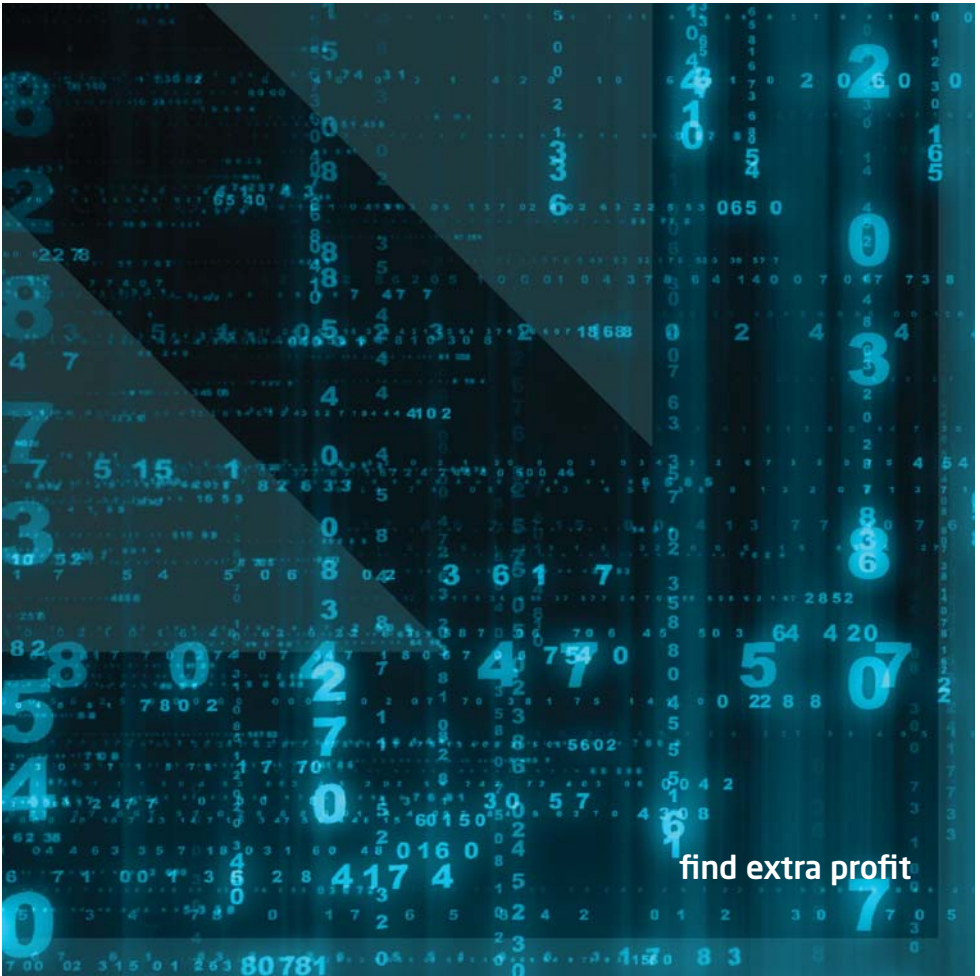
**Other topics covered in our series of cost reduction guides include:**

**Issue 1** – Property and Premises

**Issue 3** – Back Office Functions

For more information contact Expense Reduction Analysts on: **02380 892 737**

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**[www.erauk.net](http://www.erauk.net)**



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